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United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

WASHINGTON, DC 20510-6350

July 22, 2002

HAND DELIVERED

The Honorable Michael G. Oxley
Chairman
House Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

Re: Public Company Accounting Reform and Investor Protection Act of 2002, S. 2673

Dear Chairman Oxley:

Last week the Senate passed landmark legislation to reform the oversight of the accounting industry and to strengthen laws for corporate responsibility. While I support necessary reforms to the accounting industry, I am still concerned that the bill, as passed, may have unintended, negative consequences on small auditing firms and small publicly traded companies.

The Public Company Accounting Reform and Investor Protection Act of 2002, S. 2673, was designed primarily to correct inadequacies found in large auditing firms and conglomerate corporations, but its reach may go much further. Many small auditing firms and small public companies may be unable to adopt the proposed statutorily mandated requirements fully because of significant competition and cost impositions.

The new fees and requirements will take their toll on small auditing firms. The result, I fear, will be that smaller auditing firms may withdraw from providing services to public companies or simply go out of business to avoid these additional costs, resulting in less competition for auditing services. I do not believe it was our intention to create a monopoly for the large auditing firms at the expense of smaller accounting firms.

For small public companies, the legislation would require the added cost of hiring of many different accounting firms for corporate accounting, auditing, tax filing, and other financial reporting purposes. In addition, the added cost borne by the auditing firms for initial registration/annual filing fees with the proposed oversight board will mostly likely be passed along to their clients thereby subjecting small public-company clients to increase costs. Small companies also will face the implementation of new corporate governance provisions, some of which may be prohibitively expensive for small corporations. Therefore, it is imperative that any final legislation include flexibility for the oversight of small entities.

As the Ranking Member of the Committee on Small Business and Entrepreneurship, I strongly urge you to avoid adopting changes in the conference report that may create a monopoly in the auditing industry or may create expensive barriers to the financial markets for our small, growing companies. We should be careful as we adopt reforms not to put a disproportionate burden on these companies – dampening the entrepreneurial spirit or impeding access to the public markets. Our entrepreneurial economy is at stake here. By placing high hurdles and added costs to reach the public markets for small companies, we may unintentionally stunt the growth of these small companies. Enclosed please find a copy of my complete floor statement from Monday, July 8, 2002, highlighting my concerns on these issues.

As you meet to reconcile accounting reform and corporate governance legislation, I request that you keep in mind how this important legislation will affect small entities. A solid step in the right direction for small enterprises would be to permit the Securities and Exchange Commission to provide exemptions for small entities or classes of small entities in appropriate cases in which the bill's effects are unintentionally too broad. Please give careful consideration to including that provision in the final conference report on S. 2673.

Thank you for your consideration of this issue of great importance to America's entrepreneurs and small businesses. If you have any questions or would like additional information concerning this matter, please contact me or have your staff call Gregory Dean, my Banking Counsel on the Committee on Small Business and Entrepreneurship, at 224- .

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Bond", written in a cursive style.

Christopher S. Bond
Ranking Member

Enclosure



United States
of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE *107th* CONGRESS, SECOND SESSION

JULY 8, 2002

Senate

PUBLIC COMPANY ACCOUNTING REFORM AND INVESTOR PROTECTION ACT OF 2002 (page S6346)

Mr. BOND. I thank my good friend from North Dakota and assure him I hope to be brief and to the point. I am somewhat disappointed I will not share all that testimony with my colleagues, but there will be another opportunity.

I thank the chairman of the subcommittee for his kind indulgence. Today I rise to join in expressing my concern about recent accounting practices in publicly held companies and their auditors. As a former State auditor, I have an interest in that profession being performed properly. Obviously, something is seriously broken. We hear about Enron, Global Crossing, WorldCom, and Arthur Andersen. The people of America are very concerned.

We have seen millions of families with their investments diminished or even wiped out. That is not acceptable. The vast majority of investments were not in the volatile sectors, or not what we thought were the volatile sectors of the stock market. They were invested in the so-called blue chip companies. The families who made those investments on their strong belief in the integrity of our financial markets and accounting industry now find that because of corporate shams, accounting gimmicks, and inadequate auditing, they have lost significantly the investments they planned for education or retirement - for their families.

As far as we know, overall the overwhelming majority of publicly traded companies are

in full compliance with corporate accounting standards. But the fact that there has been a significant deception by a handful of companies raises suspicions of all companies. In addition, we don't know how many others will come forward in coming weeks.

We must restore the public's confidence in the market. Without this, the economic recovery which should be beginning will remain elusive.

While much of the focus in the debate here and in the news media is on the auditing problems of the big conglomerate companies, unfortunately little attention has been paid in this bill to how the impact will fall on small publicly traded companies and small auditing firms. As the ranking member on the Committee on Small Business and Entrepreneurship, I have some concerns, after reviewing this bill, that we may be pushing ahead without considering the serious effect and the unintended consequences the bill could have on smaller firms—both small auditing firms and small publicly traded companies.

The bill is clearly targeted towards abuses in extremely large businesses, which we all think should be dealt with. I personally hope it will result in prison sentences for people who are proven to have committed criminal acts in their accounting activities.

But the SEC is not even aware of how many small auditing firms there are auditing small, publicly traded companies. There are some 2,500

small companies, and we believe many of them are audited by small- and medium-size auditing firms. For small auditors, the bill will require many new elements including registration, annual filing requirements, as well as partnership rotation of lead auditors. In addition, the bill would codify a list of banned services or nonauditing services that an auditing company might conduct for a company that it audits.

While some of these elements clearly are necessary to restore confidence, and I think are going to be dealt with by regulatory action and maybe even by the industry itself, no one knows how these requirements will affect the small firms. It has been argued that the bill allows for a case-by-case exemption, but that exemption process itself could be extremely costly and untimely for small firms and lead to inconsistent results.

I fear that some of these small auditing firms will not have the resources to implement these requirements and will stop auditing services or just go out of business. The result may be that small, publicly traded companies may not be able to obtain auditing services at reasonable cost. As a result, the bill might be setting up a hurdle for small companies to reach the public markets, one that is too expensive and too great to overcome.

Clearly, when we deal with the major problems we ought not cause significant problems for the smaller, growing entrepreneurial sector of our country.

As for publicly traded companies, the bill also places new requirements for auditing committees and for corporate responsibility. Again, many of these may be necessary. However, we

need to look at how these requirements will affect the small, publicly traded companies.

The entrepreneurial spirit of our country is really the envy of the world. People know that entrepreneurship works in America. That is where we get the new ideas. That is where we get the growth. That is where we get the new services and the products. We should be careful as we adopt reforms not to put a disproportionate burden on these companies, dampening the entrepreneurial spirit or impeding access to the public markets.

I fully support accounting reform and the taking of steps necessary to restore investor confidence in the market. I think we should pass a balanced bill that will not overburden small firms and not create additional hurdles that will impede them from growing. We don't want an incidental consequence of this bill to be a monopoly of large accounting firms when it comes to corporate audits.

I agree with the other speakers that the American public is looking to us for answers. I intend to work to see that the needs of the small businesses, publicly traded small companies, and small auditing firms are protected. I am committed, and I think we all are committed, to restoring the public's confidence in the markets so families can feel safe once again in investing in America and in America's future.

I look forward to working with my colleagues to secure a balanced bill which will do that without bringing unnecessary hardship on the entrepreneurial sector of our economy.

I thank my colleague from Wyoming for the courtesy in allowing me to go ahead. I yield the floor.